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SUBJECT: UKRAINE: PM YANUKOVYCH PROMISES CONTINUITY ON WTO,
ENERGY, TRANSNISTRIA; IMPLEMENTING NATO INFORMATION CAMPAIGN

REF: A. KIEV 3873
[1](#)B. KIEV 3862

Classified By: Ambassador for reasons 1.4 (b,d).

[1](#)1. (C) Summary: Prime Minister Viktor Yanukovych assured EUR DAS Kramer and Ambassador October 4 that he would continue to make progress on WTO membership and European and Euro-Atlantic integration. Funding for a NATO information campaign was part of the 2007 draft budget. With the support of the pro-presidential Our Ukraine bloc and the opposition Bloc Yuliya Tymoshenko (BYuT), Yanukovych was confident of securing passage of WTO-related legislation before year's end, although he also recognized that unforeseen problems could also arise. The Vanco production sharing agreement was under discussion and should also be finalized by year's end. Yanukovych said he was working to improve the financial viability of the Odesa-Brody pipeline and moving toward market pricing of natural gas in a way that would minimize economic shocks. Yanukovych listened to Kramer's points on Transnistria, but did not respond beyond nodding agreement with Kramer that the policy would not change, and urged Washington to schedule his visit in November, rather than December. End summary.

Being a "Predictable Partner"

[1](#)2. (U) EUR DAS David Kramer and the Ambassador met with Prime Minister Viktor Yanukovych October 4 in a 2 1/2-hour meeting that was supposed to be just one hour. PM Foreign Policy Adviser Anatoliy Orel, MFA DFM Andriy Veselovsky, and PM Chief of Staff Serhiy Lovochkin also joined the meeting. This report covers Yanukovych's comments on economic and bilateral issues; reftel reported his comments on domestic politics.

[1](#)3. (U) After a lengthy initial presentation, PM Yanukovych wrapped up by stressing that he wished to be a predictable partner who was known for always telling the truth. He was anxious to settle political uncertainties so that he could move Ukraine in a direction that included positive efforts to combat corruption, which he called a serious disease, and continue to make progress on WTO membership and European and Euro-Atlantic integration. He hoped that, by the time of his visit to the U.S., the coalition building process would have been forgotten and he could engage his U.S. interlocutors on a broad range of topics.

NATO Information Campaign

¶4. (SBU) Kramer congratulated Yanukovych for the peaceful and democratic process that resulted in his selection as prime minister. The Ukrainian government's unity in implementing policy was in the interest not just of Ukraine but also Ukraine's partners, including the U.S., the EU, and Russia. The U.S. had no business making recommendations on forming a coalition or running a government, but it did want to help on a number of issues. Kramer said he was particularly interested in an update on the Ukrainian government's NATO information campaign and plans to pass WTO-related legislation.

¶5. (U) Yanukovych said, when he had discussed the next annual budget with the Minister of Finance, he had requested that funding for a NATO information campaign be included. This funding was now part of the 2007 budget. (Note: The current 2006 budget already included funding for MFA to carry out a NATO information campaign. Yanukovych did not say whether the next year's funding represented an increase or funded broader participation by other ministries and agencies.)

WTO-related Legislation

¶6. (SBU) On WTO-related legislation, Yanukovych continued, Minister of Economy Volodymyr Makukha was responsible for carrying out the government's plan for reviewing the relevant bills. The draft bills were being reviewed prior to being submitted to the Rada. In parallel with this review, the government was preparing measures to protect the Ukrainian market and domestic manufacturers from the negative impacts of WTO membership and identifying the most vulnerable sectors and products. Yanukovych did not foresee a problem getting

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the bills passed. Since Our Ukraine and BYuT supported WTO membership, Party of Regions could get the bills enacted even without the votes of coalition partners Socialist and Communist Parties. In response to Kramer's question, Yanukovych said he was "99 percent" certain that the legislation would be passed by the end of 2006, although he noted unforeseen problems could also arise.

Energy - Vanco

¶6. (SBU) Responding to Kramer's question on the status of U.S. oil-and-gas company Vanco's Kerch Block production sharing agreement (PSA), Yanukovych said the Ministry of Fuel and Energy had provided a written commitment and awarded exploration rights to the company. The draft PSA was being reviewed and should be finalized by December.

Energy - Caspian Oil

¶7. (C) Kramer noted that, during their meeting in July, Yanukovych had stated the three elements undergirding his approach on energy issues -- diversification, transparency, and elimination of middlemen. Was this still Yanukovych's approach? Yanukovych replied in the affirmative, but then focused his remarks on diversification, thus sidestepping issues of transparency and the status of middlemen like RosUkrEnergo.

¶8. (C) Yanukovych said he had discussed the option of reversing the flow of the Odesa-Brody pipeline with Polish officials at the September 6-8 Economic Forum in Krynica, Poland, since there had been almost no progress in developing a Polish market for the pipeline. He had agreed with Polish Prime Minister Jaroslaw Kacynski to form a working group on the issue.

¶9. (C) Yanukovych said Ukraine and Poland planned to meet with counterparts from Azerbaijan and Kazakhstan to consider

various options to fully utilize Odesa-Brody. If the working group succeeded in bringing together crude oil producers with oil refineries in Poland, this could stimulate further progress on the oil pipeline and potentially bring an additional 7 million tons of Caspian oil to Europe. Yanukovych said Russian companies were interested in participating. An analysis of a combination of Caspian and Russian oil had established that both could be used together in Polish refineries. This was essential, since Caspian producers alone could not provide sufficient volumes. The Russian Minister of Energy and Russian oil company Transnafta were interested in the project. If shipment of this volume of oil to Poland could be realized, then extension of Odesa-Brody to Plock and onward to Gdansk would be feasible. (Yanukovych also referred to the possibility that light Caspian crude could be shipped to the Polish PKN Orlen refinery in Kralupy, Czech Republic.)

¶10. (C) Yanukovych said Ukraine was also considering a North Sea export option that appeared attractive and could involve a U.S. company working in partnership with a German one. The German port of Wilhelmshaven, Yanukovych said, had water deep enough to locate a large terminal from which oil could be shipped to the U.S.

Energy - Natural Gas

¶11. (C) Yanukovych said the Ukrainian government was working on obtaining natural gas supplies from Kazakhstan and Russia. Ukrainian companies were interested in investing in the exploration and development of natural gas fields with Russian partners and with Russian GazProm.

¶12. (U) Yanukovych said whether Ukraine is able to survive a natural gas price of \$135 per thousand cubic meters would depend largely on Ukraine. Ukraine had to reach market prices for gas in a short period of time, but, to do so, it had to eliminate government subsidies while simultaneously implementing energy conservation measures and protecting low-income families. The government was working to install energy efficient systems and technologies in factories and homes. Increases in gas prices would also force greater economies in gas usage. Another tactic would be to substitute the use of coal for natural gas in electricity

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production. This could allow for lower electricity tariffs, since the price of coal was three times lower than for natural gas.

Transnistria

¶13. (U) As the meeting drew to a close, Kramer said he wanted to raise two final issues -- Transnistria and the timing of Yanukovych's visit to Washington. He said he hoped Ukraine would remain committed to its customs agreement with Moldova and its support for the EU Border Assistance Mission. The U.S. strongly supports Ukraine's actions, which was the right approach for Ukraine in both areas. Yanukovych nodded, but offered no comment.

Washington Visit

¶14. (C) Kramer continued that the Secretary had recently said she wanted Yanukovych to visit Washington sooner rather than later. As a practical matter, however, the visit could not happen before the U.S. Congressional elections in November. While Washington wanted the visit to take place before the end of the year, December looked to be more of a possibility than November. Yanukovych responded that, while he would accept any timing, he would prefer that a visit take place sometime in the last ten days of November. December was always a busy time, with finalizing the government budget and

the government plan of action. He would also probably be busy shepherding WTO-related legislation through parliament.

¶15. (U) Visit Embassy Kiev's classified website:
www.state.sgov.gov/p/eur/kiev.
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